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U.S AIRWAYS

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FAA-02-13918-11

December 28, 2000

Passenger Facility Charge Branch (APP-530)  
Attn: Joseph Hebert  
Airports Financial Assistance Division, Room 619  
Federal Aviation Administration  
800 Independence Ave., SW  
Washington, DC 20591

Dear Mr. Hebert:

In response to your request dated October 19, 2000 for our voluntary submission of information pertaining to the costs we incur in collecting, handling and remitting Passenger Facility Charge (PFC) revenues, we are submitting the following for your review. Enclosed please find our cost analysis as well as an agreed upon procedures report from our independent accountants, KPMG LLP. Certain procedures in the agreed upon procedures report were modified from the procedures originally contemplated by the Federal Aviation Administration and the airline industry due to differences in our reporting systems and in our methodologies used to calculate the costs.

The cost calculations include data related to US Airways, Inc. and the following subsidiaries and affiliated carriers:

- Allegheny Airlines, Inc.
- Piedmont Airlines, Inc.
- PSA Airlines, Inc.
- Mesa Airlines, Inc.
- ChautauquaJet Airlines, Inc.
- Colgan Air, Inc.

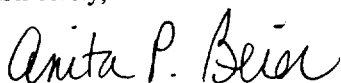
The calculations for certain incremental costs and one time implementation costs are summarized below. Certain of the variables associated with these calculations are derived from contracts and relationships that are proprietary and, therefore, specific amounts and other details are not included in this discussion.

- **Credit Card Fees** - Credit card fees were calculated by establishing credit card sales as a percentage of total sales. This percentage was multiplied by PFCs collected (net of refunds). The amount was then multiplied by the weighted average credit card discount rate for the month in which the fee was collected to arrive at the credit card fees related to PFCs.
- **PFC Disclosure Costs** - Newspaper advertisements were the only form of media used for PFC disclosure in 1999. The percentage of costs related to PFC disclosure was determined by dividing the number of media units required for the PFC disclosure by the total media units purchased. The total newspaper advertising cost was then multiplied by this percentage.
- **Reservations Costs** - The total number of calls handled by reservation agents was multiplied by the estimated percentage of calls requiring a PFC explanation and by the estimated number of seconds used to provide such explanation to determine the total reservation agent hours expended for PFC support. This amount was then multiplied by the average reservation agent wage rate, including benefits. The estimated percentage of calls requiring a PFC explanation was determined via internal monitoring of the duration of reservation calls and the duration of PFC discussions as part of our on-going quality assurance procedures.

- Passenger Service Costs – The total number of tickets issued at airports in 1999 was multiplied by the estimated percentage of passengers requiring a PFC explanation and by the estimated number of seconds used to provide such explanation to determine the total passenger service agent hours expended for PFC support. This amount was then multiplied by the average passenger service agent wage rate, including benefits. The estimated percentage of passengers requiring a PFC explanation and the duration of PFC discussions was determined based on interviews with station personnel.
- Revenue Accounting Costs – The number of hours expended by revenue accounting staff members for PFC support was multiplied by the hourly wage rate, including benefits for each individual's position.
- On-Going Training Costs - The number of training hours associated with PFCs during 1999 was multiplied by the entry level passenger service agent, reservation agent or instructor wage rates, including benefits.
- One-Time Training Costs – The number of hours required to train passenger service and reservation agents regarding the PFC increase was multiplied by either the average passenger service agent, reservation agent or instructor wage rate, including benefits.
- ATPCO One-Time Costs – This cost was determined by dividing the actual programming costs to support the PFC change by the number of member airlines.
- ARC On-Going Costs – The PFC related keystrokes as a percentage of total keystrokes required to process the average ARC document was multiplied by the invoiced ARC processing charge for 1999.
- Interest Income – The average number of days of float for both cash and credit transactions (accounting for both refunded and remitted amounts) was multiplied by the weighted average investment return for the month in which the funds were collected.
- One-Time Information System Costs – Amounts were obtained from vendor estimates.
- One-Time CRS Costs – Amounts were obtained from vendor estimates.
- CRS Costs - Amounts obtained from vendor invoices.

If you have any questions or require additional information, please contact me at (703) 872-5153.

Sincerely,



Anita P. Beier  
Vice President and Controller

Enclosure

# **INDEPENDENT ACCOUNTANTS' AGREED UPON PROCEDURES**

## **US Airways Group, Inc.**

Agreed-Upon Procedures on Passenger Facility

Charges Incremental Costs

December 31, 1999

Together with Independent Public Accountants' Report



1676 International Drive  
McLean, VA 22102-4828

**Independent Public Accountants' Report  
on Applying Agreed-Upon Procedures**

To US Airways Group, Inc. and  
the Federal Aviation Administration:

We have performed the procedures enumerated in Attachment I, which were agreed to by US Airways Group, Inc. (the "Company" or "US Airways") and the Federal Aviation Administration (the "FAA"), solely to assist you in evaluating the accompanying schedule of incremental costs directly associated with Passenger Facility Charges ("PFC") collection, handling, remittance, reporting, recordkeeping and auditing for the year ended December 31, 1999. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the FAA and the Company. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

See Attachment I for the procedures performed on this engagement and the related results.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Further, with respect to the calculations described in Attachment I, we express no assurance as to the propriety of the methodologies employed in determining the amounts expressed in the accompanying schedule of incremental costs, or on the assumptions and estimates used in the specific calculations.

This report is intended solely for the information and use of the Board of Directors and management of the Company and the FAA, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

**KPMG LLP**

December 22, 2000



KPMG LLP KPMG LLP a U.S. limited liability partnership, s  
a member of KPMG International, a Swiss association.

## Attachment I

As determined by US Airways and the FAA, KPMG LLP performed the following procedures:

1. We obtained a summary schedule from US Airways of all costs attributed to the collection and administration of PFC's, by cost caption, for the year ended December 31, 1999.
2. We obtained a schedule from US Airways of the total dollar amount of PFC's collected, refunded, and remitted for the year ended December 31, 1999 and agreed the total to a US Airways system generated report. We calculated the number of PFC's collected for the year by dividing the total dollar amount of PFC's collected by \$3, the PFC charge per segment.
3. We obtained a schedule from US Airways indicating the estimated total dollar amount of interest income earned by the company on PFC funds it held between the time of collection from passengers and the time of remittance to and receipt by the airports (or the refund of the PFC funds to passengers) for the year ended December 31, 1999.
4. We tested the summation of the total 1999 costs, as reported on the schedule obtained in step 1., for mathematical accuracy.
5. We performed the following procedures related to each cost caption, as listed on the schedule obtained in step 1., and the interest earned amount as reported on the schedule obtained in step 3., for the year ended December 31, 1999:

### Cost Caption

### Procedures

- |                     |   |
|---------------------|---|
| a. Credit Card Fees | <ol style="list-style-type: none"><li>i. We obtained from US Airways, a schedule containing the breakout of total sales by month, for the year ended December 31, 1999, separated between cash sales and credit card sales, and agreed two months of sales to schedules comparing total sales and credit card sales to the general ledger.</li><li>ii. We recalculated, based on the schedule obtained in step 5.a.i., the percentage of credit card sales as a portion of total sales for the year.</li><li>iii. We recalculated "PFC dollars collected via credit card sales" for the year ended December 31, 1999 by multiplying total PFC dollars collected less PFC dollars refunded, from the schedule obtained in step 2., by the percentage calculated in step 5.a.ii.</li><li>iv. We recalculated the "credit card discount cost" related to PFC's for 1999 by multiplying the PFC</li></ol> |
|---------------------|---|

dollars collected via credit card sales, as calculated in step 5.a.iii., by the estimated weighted average credit card discount percentage, provided by US Airways and agreed the total to the respective amount reported on the schedule obtained in step 1.

- |                      |      |   |
|----------------------|------|---|
| b. Audit Fees        | i.   | We agreed the fees, reported on the schedule obtained in step 1., to a schedule of fees for the audit, agreed-upon procedures and/or any additional charges related to PFC's for 1999.  |
| c. PFC Disclosure    | i.   | We obtained from US Airways, a summary of all disclosure cost components related to PFC's for 1999.   |
|                      | ii.  | We agreed the total costs from the schedule obtained in step 5.c.i. to the respective amount reported on the schedule obtained in step 1.   |
|                      | iii. | We recalculated disclosure costs for 1999, using US Airways' methodology and assumptions provided to us, which consider the number of media units containing PFC information, cost per media unit and portion of ad space attributed to PFC language.   |
| d. Reservations      | i.   | We obtained from US Airways, a summary of all reservations cost components related to PFC's for 1999.   |
|                      | ii.  | We agreed the total costs from the schedule obtained in step 5.d.i. to the respective amount reported on the schedule obtained in step 1.   |
|                      | iii. | We recalculated reservations costs for 1999 using US Airways' methodology and assumptions provided to us, which consider US Airways' estimate of the percentage of calls impacted by customer inquiries regarding PFC's, and US Airways' estimate of the labor cost involved in addressing each customer inquiry regarding PFC's. |
| e. Passenger Service | i.   | We obtained from US Airways, a summary of all passenger service cost components related to PFC's for 1999.  |

- ii. We agreed the total costs from the schedule obtained in step 5.e.i. to the respective amount reported on the schedule obtained in step 1.
  - iii. We recalculated passenger service costs for 1999 by multiplying the total number of passengers ticketed by passenger service agents, by US Airways' estimate of the percentage of passengers requiring PFC explanations, and by US Airways' estimate of the labor cost to explain to customers the applicability of PFC's to their journey.
- f. Revenue Accounting
  - i. We obtained from US Airways, a summary of all revenue accounting cost components related to PFC's for 1999.
  - ii. We agreed the total costs from the schedule obtained in step 5.f.i. to the respective amount reported on the schedule obtained in step 1.
  - iii. We recalculated the revenue accounting costs for 1999, using US Airways' methodology and assumptions provided to us, which consider estimates of managerial, staff and clerical employee time spent related to PFC's.
- g. Training--Reservations, Ticket Agents and Other Departments
  - i. We obtained from US Airways, a summary of all departmental training costs allocated to PFC's for 1999.
  - ii. We agreed the total costs from the schedule obtained in step 5.g.i. to the respective amount reported on the schedule obtained in step 1.
  - iii. We recalculated the costs for 1999, using US Airways' methodology and assumptions provided to us, which consider the number of agents trained, average hours of training and labor rates.
- h. Carrier Ongoing Information Systems
  - i. We obtained from US Airways, a summary of all carrier ongoing information systems costs allocated to PFC's for 1999.
  - ii. We agreed the total costs from the schedule obtained in step 5.h.i. to the respective amount reported on the schedule obtained in step 1.

- iii. We recalculated the costs for 1999, using US Airways' methodology and assumptions provided to us, which consider ongoing costs related to the maintenance of systems, data storage, resource materials, and the additional run time to price and process tickets.
- i. CRS Ongoing Costs
  - i. We obtained from US Airways, a summary of all CRS ongoing costs related to PFC's for 1999.
  - ii. We agreed the total costs from the schedule obtained in step 5.i.i. to the respective amount reported on the schedule obtained in step 1.
  - iii. We recalculated the CRS ongoing costs for 1999, based on US Airways' methodology and assumptions, which consider total CRS fees paid during 1999 and the proportion of CRS fees attributable to PFC incremental costs in 1999.
- j. Airline Reporting Corporation (ARC)
  - i. We obtained from US Airways, a schedule of all ARC costs incurred in 1999.
  - ii. We agreed the total costs from the schedule obtained in step 5.j.i. to the respective amount reported on the schedule obtained in step 1.
  - iii. We selected the five largest charges listed on the schedule and agreed the charges to the respective ARC invoice.
- k. Interest Income
  - i. We obtained from US Airways, a schedule containing the total dollar amount of interest earned on PFC funds held by the Company by month, for the year ended December 31, 1999.
  - ii. We obtained from US Airways a schedule showing the average number of days that a PFC collected in each month was held between time of receipt by the airline and time of receipt by the airports; or (in the case of refunded tickets) time of refund to the passenger.
  - iii. We obtained from US Airways a schedule of the average interest rates earned for each month in 1999 on its short-term investment portfolio.



- iv. We recalculated two months of interest earned on PFC dollars collected from sales for the year ended December 31, 1999, by multiplying monthly PFC dollars collected from the schedule obtained in step 2. by days held (both for remitted PFC's and PFC's refunded to passengers), as a proportion of a 365 day year obtained in step 5.k.ii, and then by the appropriate monthly interest rate percentages obtained in step 5.k.iii.
  - v. We agreed the total income for each month, as calculated in step 5.k.iv., to the respective amount reported on the schedule obtained in step 3.
- 6. We calculated the average cost per PFC for the year ended December 31, 1999 by dividing the total costs for the year, as reported on the schedule obtained in step 1., less the interest earned on collected PFC's, as reported in step 3., by the number of PFC's collected and the number of PFC's remitted, as determined in step 2.

**US Airways Group, Inc.**  
**Schedule of Incremental Costs**  
**Directly Associated with Passenger Facility Charges (PFC)**  
**Year Ended December 31, 1999**

Credit Card Fees	2,505,923
Audit Fees (External)	40,000
Disclosure Costs	47,841
Reservations	1,700,420
Passenger Service	218,186
Data Entry:	
Internal	0
Revenue Accounting	77,928
Accounts Payable	0
Tax & Legal Department	0
Corporate Property Dept	0
Training:	
Reservations	4,297
Other	0
Ticket Agents	5,218
Internal On-Going IT	173,105
CRS On-Going Fees	756,997
PFC Absorbtion	0
ATPCO	0
ARC + BSP	177,915
Internal One-Time IT Update	0
CRS One-Time Update	0
Interest Revenue On Float	(808,876)
Total Costs	5,707,830
Total Costs Less Interest	4,898,954
Number of PFCs Remitted	43,964,666
Number of PFCs Collected	49,868,048
Cost Less Interest/ PFC Remitted	\$0.1114
Cost Less Interest/ PFC Collected	\$0.0982

**US Airways Group, Inc. Summary Table  
(1999 Actual, 2000-2002 Forecast)**

	Actual Costs 1999 <sup>1</sup>		1999 Pro-Forma <sup>2</sup>		Implementation Costs <sup>3</sup>		Full Year Costs 2000 <sup>4</sup>		Forecast 2001 <sup>5, 6</sup>		Forecast 2002 <sup>5, 7</sup>	
Credit Card Fees	2,505,923	44%	3,738,493	54%			2,644,191	43%	3,293,793	47%	4,368,275	53%
Audit Fees (External) 8	40,000	1%	40,000	1%			41,320	1%	42,312	1%	43,327	0%
Disclosure Costs 8	47,841	1%	47,841	1%			49,420	1%	50,606	1%	51,820	1%
Reservations 9	1,700,420	30%	1,700,420	24%			1,862,480	31%	2,014,282	29%	2,180,394	28%
Passenger Service 9	218,186	4%	218,186	3%			238,980	4%	258,459	4%	279,773	3%
Data Entry:												
Internal	0	0%	0	0%				0%		0%		0%
Revenue Accounting 8	77,928	1%	77,928	1%			80,500	1%	82,432	1%	84,410	1%
Accounts Payable	0	0%	0	0%				0%		0%		0%
Tax & Legal Department	0	0%	0	0%				0%		0%		0%
Corporate Property Dept	0	0%	0	0%				0%		0%		0%
Training:												
Reservations 9	4,297	0%	4,297	0%	49,675	34%	4,436	0%	4,573	0%	4,715	0%
Other	0	0%	0	0%				0%		0%		0%
Ticket Agents 9	5,218	0%	5,218	0%	50,424	34%	5,387	0%	5,516	0%	5,687	0%
Internal On-Going IT 8	173,105	3%	173,105	2%			178,817	3%	183,109	3%	187,504	2%
CRS On-Going fees 8	756,997	13%	756,997	11%			781,978	13%	800,746	11%	819,964	10%
PFC Absorption	0	0%	0	0%				0%		0%		0%
ATPCO	0	0%	0	0%	135	0%		0%		0%		0%
ARC + BSP 8	177,915	3%	177,915	3%	10,070	7%	183,786	3%	188,197	3%	192,714	2%
Internal One-Time IT update	0	0%	0	0%	13,229	9%		0%		0%		0%
CRS One-Time update	0	0%	0	0%	24,000	16%		0%		0%		0%
Interest Revenue On Float	(808,876)	n/a	(1,213,315)	n/a			(858,163)	n/a	(1,075,066)	n/a	(1,425,767)	n/a
TOTAL COSTS	5,707,830	100%	6,940,400	100%	147,533	100%	6,071,295	100%	6,924,025	100%	8,218,583	100%
Total Costs Less Interest	4,898,954	n/a	5,727,085	n/a			5,213,132	n/a	5,848,959	n/a	6,792,816	n/a
Number of PFCs Remitted	43,964,666		43,964,666		43,964,666		46,643,517		48,928,419		51,370,900	
Number of PFCs Collected	49,868,048		49,868,048		49,868,048		52,906,603		55,498,311		58,268,758	
Cost Less Interest/ PFC Remitted	\$0.1114		\$0.1303		\$0.0034		\$0.1118		\$0.1195		\$0.1322	
YOY Change							0.4%		6.9%		10.6%	
Cost Less Interest/ PFC Collected	\$0.0982		\$0.1148		\$0.0030		\$0.0985		\$0.1054		\$0.1166	
YOY Change							0.3%		7.0%		10.6%	

ASM growth rate  
"CPI - Urban" from WEFA <sup>8</sup>  
Labor Contract Parity Adjustments <sup>9</sup>

6.1%  
3.3%  
3.24%

4.9%  
2.4%  
3.1%

5.0%  
2.4%  
3.1%

- Notes:
- 1 - Actual costs incurred. Agreed upon procedures have been applied by the independent accountant to actual 1999 costs.
  - 2 - Assumes the same volume as 1999, but with 100% of PFCs Collected at \$4.50 per PFC -- this **only** impacts Credit Card Fees and Interest Revenue.
  - 3 - For any costs associated with the implementation of the new maximum \$4.50 PFC rate. This column is not year specific.
  - 4 - 2000 estimate total based on 1999 actual performance.
  - 5 - Does not include any Implementation Costs
  - 6 - Assumes 3 months with 100% of PFCs Collected at \$3. Assumes 9 months with 50% at \$3 and 50% at \$4.50.
  - 7 - Assumes 12 months with 100% of PFCs at \$4.50.
  - 8 - WEFA US Economic Outlook 2000-05 - US Cycle Monitor, September 2000, page 201, All Items - Urban Wage Earners
  - 9- Labor contracts require union members to receive annual raises which are an average of United, American, Delta and Northwest's union contracts plus an additional 1%.